BEFORE THE
PUBLIC SERVICE COMMISSION OF WISCONSIN

Quadrennial Planning
Process Phase II **DOCKET NO. 5-FE-100**

COMMENTS OF THE INDUSTRIAL CUSTOMERS GROUPS TO COMMISSION'S NOTICE OF INVESTIGATION REGARDING QUADRENNIAL PLANNING PROCESS II

A. INTRODUCTION

The Wisconsin Industrial Energy Group, Inc. (WIEG), Midwest Food Processors Association (MWFPA), Wisconsin Cast Metals Association (WCMA), Wisconsin Manufacturers & Commerce (WMC), , and the Wisconsin Paper Council (WPC) (together, the Industrial Customer Groups or ICG) appreciate the opportunity to provide feedback regarding the Quadrennial Planning process. Specifically, the Public Service Commission of Wisconsin (PSCW or the Commission) issued a Notice of Investigation (NOI) on January 30th seeking comments regarding issues related to Focus on Energy (Focus), the statewide energy efficiency and renewable resources program. The issues include Focus's role in cost-effectively meeting potential federal carbon standards, relative emphasis of energy and demand savings, overall energy goal in lieu of kilowatt-hour (kWh) and therm goals, rate mitigation strategies and renewable energy issues. State law requires the Commission to review energy efficiency and renewable resource programs periodically.[1]

In September 2013, the U.S. Environmental Protection Agency (EPA) issued a series of questions to states regarding the development of carbon dioxide regulations for existing power plants under section 111(d) of the Clean Air Act. In December 2013, the Wisconsin Department of Natural Resources (WDNR), with the support of the Commission and the State Energy Office, sent a letter to the EPA with several recommendations for how federal compliance mechanisms should be designed. ICG supports the Commission's advocacy of efforts that provide flexibility to states should the EPA decide to move forward with carbon regulation. In particular, ICG

---

[1] See Wis. Stat. § 196.374(3)(b)1.

appreciates the recommendation to be credited for past efforts regarding retrofitting of existing coal plants and energy efficiency efforts.

However, any federal rulemaking process for implementing carbon regulations will likely be protracted due to litigations and is, therefore, fraught with uncertainty. In the NOI, Commission staff's questions primarily focus on the role of energy efficiency in meeting potential carbon standards. Given the tentative and highly speculative nature of a carbon standard, ICG believes that at present, it is premature to make changes to Focus assuming that energy efficiency can be utilized as an allowable compliance mechanism. There are however, certain recommendations that can be implemented at the present time to improve specifc aspects of Focus including cost effectiveness such as:

a. Revisiting the carbon cost assumption of $30/ton and the timing of when this assumption should be applied in the life cycle cost analysis of the energy efficiency initiatives to ensure that the assumptions are realistic.
b. Applying Equal emphasis on demand and energy as part of efforts to help avoid building generation and transmission infrastructure.
c. Ratepayer impact measure (RIM) tests for evaluating Focus's cost effectiveness.

B. RESPONSES TO SELECT QUESTIONS

1. FOCUS'S ROLE IN COST-EFFECTIVELY MEETING FEDERAL CARBON STANDARDS;

a. Assuming demand-side energy efficiency will be an allowable compliance mechanism, should Focus be used to cost-effectively meet federal carbon standards? Why or why not?

As the Commission is aware, there is currently no existing legislation or draft proposal from EPA regarding federal carbon standards for existing generation. Therefore, at the outset, we emphasize that ICG's response to this question is necessarily preliminary in nature due to the speculative nature of the assumption regarding any future legislation. Further, if and when a draft rule proposal is issued by the EPA, it could take several years before a final Rule is issued. Therefore, ICG believes that while it is reasonable to conduct "what-if" type of analyses, it is premature to utilize this feedback to make any changes to the Focus program at the present time. Keeping this context in perspective, ICG believes that provided energy efficiency will be an allowable mechanism and Focus implements cost effective energy efficiency initiatives, this program should be used to meet federal carbon standards. ICG also supports the Commission's and WDNR's following recommendation to the EPA regarding the allowance of credits for past actions to reduce CO_2 since 2000:

> **Credit for CO_2 reductions already achieved.** Wisconsin utilities have already invested significant money to build new, more efficient power plants and retire older units. Wisconsin utilities have invested over 4.5 billion dollars for 4,200 megawatts (MW) of new coal and natural gas generation since 2000. In addition, over 2.3 billion dollars is invested in approximately 1,100 MW of renewable electricity for meeting the state RPS requirement. Wisconsin ratepayers have also contributed over 469 million dollars to the Focus program and other efficiency efforts since 2000. Since 2005, as a result of these combined actions, the power plant fleet heat rate (efficiency) has improved by approximately 9 percent and overall CO_2 emissions have been reduced by approximately16 percent. Wisconsin's early actions and investments should be credited under a CO_2 regulation for power plants. In order to credit these and other early CO_2 reduction measures, states should be able to credit actions back to 2000.

***See* Commission and WDNR Comments, December 13, 2013, page 2**

While it is not prudent to make any changes to Focus based on the speculation that energy efficiency will be an allowable compliance mechanism, the Commission should address the issue of assumed cost of carbon and the timing of when this assumption should be incorporated in the process. This should be done in order to more carefully and reasonably estimate life cycle cost related savings associated with Focus initiatives. At present, a levelized value of $30/ton is used for carbon to evaluate energy efficiency initiatives over time. It is not clear how the $30/ton price assumption was derived. Furthermore, since currently no state or federal laws exist regarding carbon monetization, it seems unrealistic to assume such costs starting from the present time and over the life of the energy efficiency or renewable resource measure. By including such an assumption, the end result is that energy efficiency and renewable resource initiatives appear to be more cost effective than they actually are.

Thus, the ICG strongly recommends that no carbon values be included in the life cycle cost analysis at the present time. Alternatively, if the Commission makes the decision to include such values, the ICG recommends that at a minimum, a phase-in approach be used for the carbon price assumption and the effective date for including such a price be delayed several years into the future instead of the present time.

b. What changes to Commission policies regarding energy and demand savings would better position Focus to assist in the state's compliance with federal carbon standards?

c. What changes in the design and implementation of Focus programs would better position Focus to assist in the state's compliance with federal carbon standards?

These questions are too broad and it is difficult to respond to them without having additional specificity regarding the Commission staff's perspective on the policies that are being referred to and situations that could necessitate changes in policies and implementation. Further, recommended changes to better position Focus cannot be provided until more information is known about carbon standard regulations. ICG expects there to be future requests for comments issued by the Commission regarding this matter. It would be helpful for the Commission to be more narrowly define these issues at that time.

d. How should carbon attributes of energy efficiency savings be assigned or obtained?

It is our understanding that the carbon emission reductions associated with energy efficiency initiatives are tracked by Focus and the Commission. The issue of how the energy efficiency savings should be assigned or obtained will depend in large part on the manner in which EPA will designate compliance requirements and cannot be addressed at the present time. In other words, it is not known whether EPA will allow states the flexibility to designate such requirements to the utility or Focus or MISO. There is also the issue of credit ownership in the first instance. For example, to the extent that the energy efficiency initiatives are implemented by industrial customers, it is reasonable and equitable (similar to the Renewable Resource Credits issue)[2], that the credits should be assigned to these customers.

[2] See AB596 soon to be enacted into Law.

2. RELATIVE EMPHASIS OF ENERGY AND DEMAND SAVINGS

a. Should energy and demand reductions be of equal priority when setting Focus goals? If not, which should receive priority and why?

Yes. ICG believes that equal importance should be given to reducing energy and demand. In a previous Quadrennial Process investigation, the Commission determined there should be greater emphasis on reducing energy use than demand reduction. However, the following factors necessitate that equal emphasis be placed on energy and demand:

- Both energy and demand help defer power plant construction further into the future. An equal emphasis on both will be beneficial in light of the current situation in which some utilities are seeking capacity for the period 2014-2019.
- The higher emphasis on energy savings in the past has likely resulted in the unintended consequence of peak demand growth outpacing energy growth. Aside from the need for generation capacity, the higher peak demand growth also results in the addition of expensive transmission infrastructure that is paid for by customers. [3]

Thus, equal emphasis should be given to reducing energy and demand to delay building infrastructure and to restore a more balanced load profile. The performance mechanism for the Focus on Energy program administrator should also be modified accordingly.

3. RATE IMPACT MITIGATION STRATEGIES

a. How does the cost of cost-effective energy efficiency compare to the cost of other carbon mitigation strategies? Should this difference be considered in determining whether to implement rate mitigation strategies?

b. What rate mitigation strategies do you see as being effective?

ICG believes that comparisons between cost effective energy efficiency initiatives and other potential options for cost containment are necessary to identify the least cost options. However, in implementing energy efficiency initiatives, it is also important to recognize that while future infrastructure is potentially delayed, the near term result is lower sales which can result in utilities seeking rate hikes. This is because the fixed costs are spread

[3] For example, in response to the request for rehearing by petitioners SOUL and Citizens Energy Task Force in the CAPX2020 CPCN docket, utilities explicitly differentiate between demand and energy sales growth and indicate the specific CAPEX2020 transmission lines are required to reliably meet peak demand needs. See Docket No. 05-CE-136, ERF No:197530, page 2.

over a smaller sales volume. Higher rates heighten the risk of industrial customers being forced to implement cost containment strategies including shifting production, relocating and expanding elsewhere. Therefore, rate mitigation strategies are essential for industrial customers especially at a time when the average industrial rates of Wisconsin investor owned utility are greater than all Midwest states save Michigan.

ICG members support energy efficiency investments provided they are cost effective for participating and non-participating customers. At present, the Total Resource Cost Test is used to quantify effectiveness at the energy efficiency measure and portfolio level and the Utility/Administrator test to inform program design. The ICG believes that one rate mitigation strategy is to conduct the Ratepayer Impact Measure (RIM) Test in order to ascertain cost effectiveness for non-participating customers. If the benefit-to-cost ratio is less than 1, costs are higher than benefits and all customers, including non-participating customers, are not benefitting from the program portfolio. Conversely, if this ratio is more than 1, all customers are benefitting from the energy efficiency initiatives. Thus, using the RIM, only energy efficiency measures and portfolios with a benefit-to-cost ratio of 1 or greater should be adopted.

4. RENEWABLE ENERGY ISSUES

a. How should renewable resource program cost effectiveness be determined?
b. How should the goals and funding levels for renewable resource programs be determined?
c. Are there criteria that should applied to renewable resource funding, either as a whole (such as maintaining a minimum portfolio level of cost effectiveness) or by measure or measure group (such as the Group 1 and Group 2 funding currently in place)?

ICG applauds the efforts made by the Commission in past decisions to assess cost effectiveness, goals and funding levels for renewable resource programs.[4] The Commission's actions introduced criteria that have vastly improved the cost effectiveness of these programs and provide the "biggest bang for the buck". Thus, ICG supports the Commission's September 2013 decisions regarding this matter and recommends no changes.

[4] See Commission's Decisions in Docket:05-GF-191, PSCW ERF No:191060

ICG appreciates the opportunity to comment on the Commission's NOI regarding the Quadrennial Process II. We look forward to providing further assistance and feedback as this investigation progresses.

March 14, 2014

Wisconsin Industrial Energy Group, Inc.

By: /s/

Todd Stuart, Executive Director
10 East Doty Street - Suite 800 Madison, WI 53703
Phone: 608-441-5740
tstuart@wieg.org

Midwest Food Processors Association

By: /s/

Nick George, President
Midwest Food Processors Association
4600 American Parkway #110
Madison, WI 53718
Phone: 608-255-9946
nick.george@mwfpa.org

Wisconsin Cast Metals Association

By: /s/

Steve Lewallen, Executive Director
111 Woodside Court
Neenah, WI 54956
Phone: 920-727-9949
selewallen@gmail.com

Wisconsin Manufacturers and Commerce

By: /s/

Eric Bott, Director of Environmental & Energy Policy
501 East Washington Avenue
Madison, Wisconsin 53703-2944
Phone: 608-661-6935
ebott@wmc.org

Wisconsin Paper Council

By: /s/

Earl Gustafson, VP – Energy, Forestry & HR
5485 Grande Market Drive, Suite B
Appleton, Wisconsin 54913
Phone: 920-574-3752
Gustafson@wipapercouncil.org

KM Energy Consulting, LLC

By: /s/

Kavita Maini
961 North Lost Woods Rd, Oconomowoc,
WI 53066
Phone: 262-646-3981
kmaini@wi.rr.com